Long-Term Care Task Force
Briefing Paper

Issue: Long Term Care Insurance Options

Description: Long term care insurance can provide coverage for supportive services as a person's physical or cognitive support needs increase, if the policy is purchased prior to a decline in his or her functioning. By supporting the purchase of long term care insurance policies, States can potentially decrease reliance on Medicaid and other state programs. However, the expense of policies can make them out of reach for many middle-income Americans. Washington policy-makers could take steps to improve the availability, accessibility, and quality of long term care insurance policies, as outlined below.

Background:

About two-thirds of all Americans will likely need some type of supportive services after age 65.[1] Long term care insurance allows a person to buy a policy for future coverage of long term care services, including assistance with activities of daily living (ADLs) (e.g., eating, bathing, and dressing), personal care services, respite care, home health, adult day services, or services in an institutions, such as a nursing home, assisted living facility, or adult family home.

Relatively few older Americans own policies (less than 10 percent) and those who do are generally affluent.[2] Many people make an informed decision not to purchase a long term care insurance policy, while others may be confused by the myriad of choices or a cost/benefit analysis. Still others may not even be aware of their risk of needing long term care and have not sought potential solutions. Long term care insurance is primarily sold to older adults (average age 67) through the individual market by insurance agents over the purchaser's kitchen table.[3] This has implications for attempts to increase the number of individuals who buy long term care insurance.

Long term care insurance policies can be expensive and may be unaffordable for many middle-income Americans. Another challenge is that, although premiums are designed to remain the same over the life of a policy, policies can increase if claims experience increase. Some companies have requested and received approval for steep increases in premiums. If a person in unable or unwilling to pay premiums, he or she may forfeit the entire policy. Further, a person does not qualify for benefits until his or her functional needs "trigger" the benefit (i.e., inability to perform certain ADLs). Even then, there are waiting periods (e.g., 90 days) before benefits are payable. Once active, many policies are limited by a time period (e.g., four years) or a maximum total cost to the insurance company.

As a result of the nature of the benefits offered and fairly high lapse rates, despite increased purchase, the role of long term care insurance in financing services in the future may not grow much unless there are changes in policies and premiums. ***Exhibit 1*** shows that projecting current purchase rates into the future, the proportion of elderly with long term care insurance

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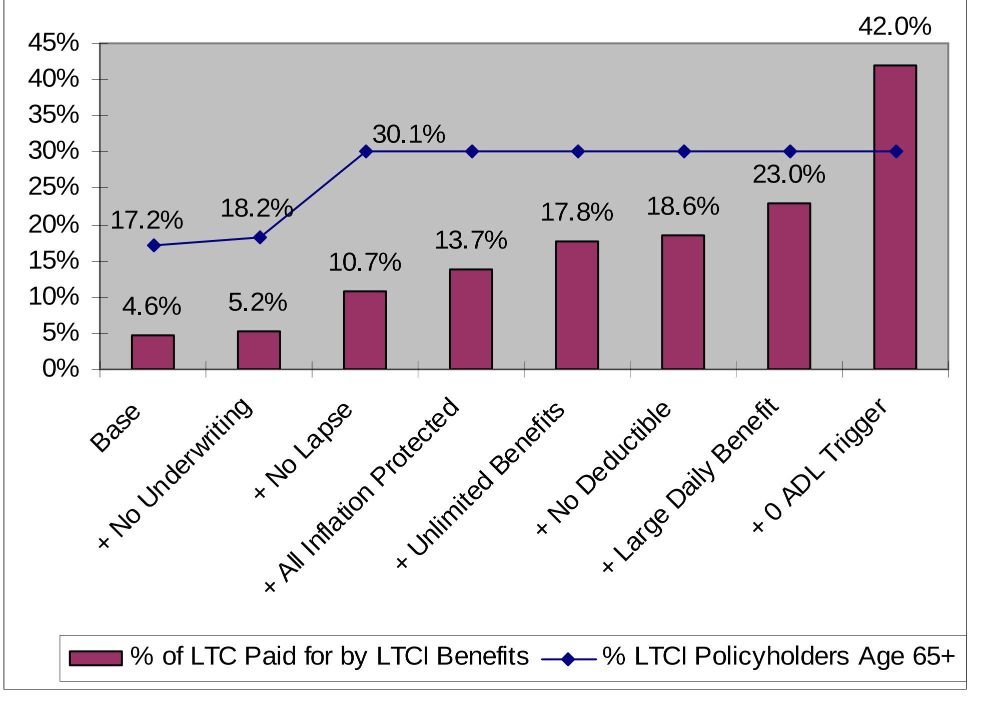
[1] Kemper, P., Komisar, H. and Alecxih, L., "Long-Term Care Over an Uncertain Future: What Can Current Retirees Expect?" *Inquiry Journal*, Volume 42, Winter 2005/2006.
[2] American Health Insurance Plans (June 2004) *Long Term Care Insurance on 2002*. http://www.ahipresearch.org/pdfs/18_LTC2002.pdf
[3] Ibid.

would grow to 17.2 percent. However, the proportion of long term care spending covered by private insurance would remain less than five percent. The small role of long term care insurance can be explained, in part, by the nature of the policies (deductibles, benefit triggers, limited payouts), the practices of companies (underwriting), and consumer choices (stopping payment for a policy, not purchasing inflation protection). Without changing the purchase probabilities, ***Exhibit 1*** provides an indication of the cumulative expected change in policyholders among older adults and the proportion of long term care financed by private long term care insurance if each of these factors was modified. For example, the fact that insurers underwrite policies means that about five percent of people who consider purchasing a policy can not as a result of a current disability or chronic illness (18.2-17.1/18.2). Creating policies where individuals would not lapse for non-payment would increase the proportion of the elderly with a policy to 30 percent and the proportion of spending covered by long term care insurance to 10.7 percent. Requiring inflation protection, which would allow for daily benefit amounts to increase to account for the rising cost of health care, in all policies could increase the role of long term care insurance by nearly 30 percent (10.7 percent to 13.7 percent). It is important to note that these results do not account for potential changes in purchase rates as a result of higher premiums that may be charged because of these changes. The comparison is designed to highlight the cumulative effect of policy features and consumer choices independent of premiums.

Exhibit 1: Effect of LTCI Policy Features on the Role of LTCI: Base Case Probabilities Impact in 2045



Source: The Lewin Group analyses of the Long Term Care Financing Model, 2005.

Exhibit 2, below, published by America's Health Insurance Plans, describes the coverage offered by the top 13 long term care insurers in 2002. Although there are many areas of similarity displayed, the key differences maybe realized in the amount of daily benefit and the length of the deductible period. Washington State does not compile similar information for the

56 insurers offering long term care insurance, however, the Statewide Health Insurance Benefits Advisors will assist consumers in making comparisons using tools they developed and make available on the web.

Exhibit 2: Typical Coverage Offered by Top Long-Term Care Insurance Sellers in 2002
Source: AHIP

Services Covered	Nursing home care	13 out of 13
	Assisted living facility	13 out of 13
	Home health care	13 out of 13
	Alternate care	13 out of 13
	Hospice care	13 out of 13
	Respite care	13 out of 13; 15-30 days
Other Benefits Offered	Bed reservation benefit	13 out of 13; 21-60 days
	Care coordination/care management	13 out of 13
	Caregiver training	13 out of 13; 5-50 times daily benefit amount
	Medical equipment coverage	10 out of 13
	Restoration benefit	13 out of 13
	Survivorship benefit	10 out of 13
Discounts Offered	Spousal and “preferred health” reduces premium 10-40%	13 out of 13
Integrated Policy Offered	Yes	13 out of 13
Daily Benefit Ranges	$50-500/day benefit	
Benefit Eligibility	ADLs or cognitive impairment	13 out of 13
Benefit Period	Ranges 1 year to lifetime	
Maximum Benefit Period	Unlimited or lifetime offer	13 out of 13
Deductible Period	Ranges 0-365 days	
Preexisting Condition	6 months or less	13 out of 13
Limited Pay Policies Offered	Single premium/10-pay/pay until age 65	7 out of 13
Renewability	Guaranteed	13 out of 13
Non-Tax Qualified Policies Offered	Yes	3 out of 13
Alzheimer’s Disease Coverage	Yes	13 out of 13
Age Limits for Purchasing	18-99	
Waiver of Premium	Yes	13 out of 13
Free-Look Period	30 days	13 out of 13
Inflation Protection	Offers 5% compounded annually	13 out of 13
Nonforfeiture Benefit	Shortened benefit period	13 out of 13

The Deficit Reduction Act of 2005

The Deficit Reduction Act (DRA), which became law in February 2006, made changes to some policies that could impact the purchase of LTCI. First, the law lengthened the look back period for asset transfers for persons applying for long term care services through Medicaid. Previously, states examined the past 3 years (36 months) to determine whether assets had been transferred to relatives; the new law requires states to look back over the past five years (60 months).

In addition, the law made changes to a previously imposed moratorium on state "Long Term Care Partnership programs," which allow states to encourage individuals to purchase long term care insurance, in exchange for disregarding a portion of the person's assets (equal to the policy value) when determining Medicaid eligibility for long term care services. The DRA also requires the federal Department of Health and Human Services to develop reciprocal agreements among Partnership states, so individuals can use their benefits in other states. However, states are able to opt out of this reciprocal agreement.

Washington LTCI Quick facts:

- Washington ranks eighth among the states in the number of long term care insurance policies sold and has a relatively high proportion of residents with long term care insurance policies (between 10 and 14%), according to a 2002 report published by America's Health Insurance Plans.

- According to the National Association of Insurance Commissioner's Experience Report, in 2005, 105,515 individuals had long term care policies and they paid a total of $1.54 billion in premiums. These policies paid out $560 million in benefits in Washington.

- Washington is one of 21 states that has enacted authorizing legislation for the Long Term Care Partnership program.[4]

Options:

About half of the states offer residents a tax credit or deduction for purchasing long term care insurance. Because it does not levy an income tax, Washington can not offer such an incentive. However, there are other options the State may consider to encourage the purchase of LTCI:

- Encourage group purchasing by offering incentives to businesses to offer long term care insurance to their employees

- Improve consumer protections for individuals purchasing long term care insurance (The National Association of Insurance Commissioners has developed a Long Term Care Insurance Model Regulation);

[4] Kassner, Enid. Long Term Care Insurance Partnership Programs, Research Report. AARP. March 2006. Available at: http://www.aarp.org/research/longtermcare/insurance/fs124_ltc_06.html.

- Improve the information available about long term care insurance products available and the companies offering them (e.g., create consumer guides with details about products and insurers' rate increase history)

- The Commissioner of Insurance's Office is looking into what needs to be done in order to implement the existing Washington legislation to develop a Medicaid Long Term Care Partnership program, which will encourage individuals to purchase long term care insurance by allowing them to participate in Medicaid while protecting a portion of their assets. (Congress recently lifted a limit on the number of these programs that could be approved.)

Resources:

LTCI Self Assessment (Indiana Long Term Care Insurance Program)

http://www.ai.org/fssa/iltcp/selfguide.htm#skipendernav

Report on Implementation of New York Long Term Care Partnership program

http://www.ins.state.ny.us/acrobat/ltcrpt03.pdf

Private Long Term Care Insurance: Who Should Buy It and What Should They Buy? Kaiser Family Foundation, March 2003.

http://www.kff.org/insurance/6072-index.cfm

Consumer Protection and Long Term Care Insurance: Predictability of Premiums. Georgetown University Long Term Care Financing Project, March 2004.

http://ltc.georgetown.edu/pdfs/consumer.pdf